

OFFICE OF THE WASHINGTON STATE LIQUOR CONTROL BOARD

October 30, 1996

A meeting of the Washington State Liquor Control Board was called to order at 1:00 p.m., Wednesday, October 30, 1996, at the Westwater Inn, Olympia, by Board Member Jack Rabourn. Board Member Mary McKnew was present. Chairman Nate Ford was on leave. Assistant Attorney General Kim O'Neal was present. Sue Vanderburg transcribed the minutes.

Board Member Rabourn called on Dave Goyette, Director, Regulatory Services, to present the price postings proposal. Mr. Goyette welcomed everyone and introduced the following Board staff: Craig Wilson, Director, Information Services, Rich Raico, Manufacturers, Importers and Wholesalers (MIW) Supervisor, Regulatory Services, and Heidi Whisman, Nonretail Supervisor, MIW, Regulatory Services.

Mr. Goyette explained that Washington State law requires that any proposed price modifications by the wholesalers and suppliers must have prior approval of the Board. The intent of the law is to ensure that an orderly three-tier distribution system is maintained in the state. He said the law also requires that the price information be submitted on a form supplied by the Board or on a reasonable facsimile of such a form.

Mr. Goyette said the beer and wine labels have grown tremendously over the past few years. The problem is it has not been possible for the Board to increase the staffing level to absorb that growth. In Fiscal Year 1994, 55,000 pieces of paper pertaining to price postings were received. At that time, a software program was implemented which reduced the number of paper to 38,136, but which presented other problems. Among them is the program was not developed to include the many suppliers with whom the Board works.

To meet any challenges alleging the price postings system is a price fixing scheme, he said the Board must vigorously enforce the rules to ensure the prices are filed by licensed businesses and that the prices posted by distributors are at least 10% above the supplier prices. Anything less, the Board would be little more than a collector of price information for comparison purposes.

Currently the Board is only able to allot two staff members to handle the entire task and since it does not appear additional staffing is possible, he said the only alternative is to automate the system.

DEFENDANT'S EXHIBIT	
CASE NO.	C04-0360P
EXHIBIT NO.	527

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He said the Board is considering the Internet as a possible medium for filing of the price postings. Filing by disks and papers would be allowed for a time to make the transition smoother. Those who do not have the equipment will be given reasonable amount of time to obtain the equipment. The Board will try to accommodate a wide range of expertise in terms of computer knowledge and usage. In terms of software, he said it would be something that is available at the stores. The Board will strive to keep the costs of the hardware and software down to reasonable levels.

Some of the advantages of filing through the Internet include the ability to file and query prices instantaneously, any time of the day. Currently, the query can only be done during the Board's work hours. It would also allow instant verification of the prices posted, thereby eliminating any potential for miscommunication.

Mr. Goyette said the Board is seeking about six volunteers to serve on a Task Force whose mission would be to determine a program that would be acceptable to the vast majority of the stakeholders. The membership would be representative of the industry in terms of size and scope.

Mr. Goyette presented a possible computer program which may serve as a starting point for discussion. It contained such features as View Supplier Postings, View Distributor Postings, Edit/Submit Price Postings, and View Approved Labels (which is something that is not possible right now). He picked a supplier and showed the types of information that could be available which includes the product code, the variety, the size, the sell price and the post-off price, the date of posting and the date the sell price goes into effect.

Any one accessing the program could query the prices, but only those with a security code can edit the prices. The latest price is the last price that is entered. The system would be designed to reject incorrect data. For instance, if the price is not 10% above the supplier price, the system would not accept it. There would be a screen which would state the reason for the rejection. Any mistakes can be edited or re-edited during the subsequent five-day window period that would be allowed to correct mistakes. The current system goes by the post mark date which causes stress for all the parties involved.

Mr. Goyette then opened the floor for questions and discussion.

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Kimberly Wilson, G. Raden & Sons, asked if their data base can be uploaded onto the Board's program? Mr. Goyette replied his understanding is that all prices in effect at the time the system becomes effective would be uploaded onto the system.

Dave Westfall, Northwest Select, asked if under this system, future prices can be posted. Mr. Wilson indicated the future price is something that can certainly be addressed in the design characteristics of the system which have yet to be developed. He said the Board is asking participation from the industry in defining the design characteristics.

A question was asked about the depletion allowances and how the new system would account for such allowances. Mr. Raico said the Board is reviewing the laws and checking with the Attorney General's Office to see what elements are required on the price posting. He said the only real recognizable allowance is the freight differential from supplier to the wholesaler. The depletion allowance filed with the Board would not necessarily be reflected on the price posting.

Lou Wood, Mt. Hood Beverage, indicated his company is a large distributor with multiple locations. After investing money and time last year, they are now able to interface with the current electronic posting system. Under the new system, he asked if the Board would provide a new specification for a file layout that can be downloaded so that the only change they would have to make to their data base is to plug in the distributor code number assigned by the Board? The reply was in the affirmative.

Mr. Wood also expressed concern in having to file depletion allowance in a format different from and in addition to the postings. Mr. Goyette replied the depletions could be submitted at the same time as the price posting but it would not show up on the spread sheet. Some of the information on the spreadsheet would not be pertinent to the purpose of comparing prices, and would only be available to everyone who accesses the system. Some of that information would be for Board's enforcement purposes only.

Mr. Wood said he would like the transmission to be as streamlined possible and expressed concern about any duplication in the data base he has to maintain. Mr. Goyette said the Board recognizes there are more to this than meets the eye. The Board is hoping those kinds of concerns will be identified and addressed by the Task Force.

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Pam O'Brien, Jennings Corporation, indicated she did not see any reference to "chem codes" and asked if the Board will be developing data base for the chem codes? Ms. Whisman said the proposed new product code would essentially be replacing the chem codes and will be used to identify the product. Mr. Goyette said the problem is that the same product can be carried by 20 different distributors and can be described in 20 different ways. The product code number identifies exactly what the product is as well as its specific size and package configuration.

Jamie Pisaruck, Western Washington Beverage, asked how the product code numbers will be assigned? Mr. Goyette said a code number will be assigned to each of the existing products. Thereafter, a new code number would be assigned to each label that is approved. He said the usage of SEC and UPC numbers was discussed but discarded because neither serves the purpose as well.

Jim Boyer, Anheuser Busch asked if anyone can query the information on the Internet. Mr. Goyette replied in the affirmative. Mr. Boyer asked about security. Mr. Wilson said the Board recognizes the importance of security with posting prices and will certainly take it into account. Mr. Boyer suggested that a backup system should be available in case the system malfunctions.

Phil Wayt, Washington Beer and Wine Wholesalers Association, asked if the Board would consider using telephone modem lines prior to using the Internet? He said he is unable to find any distributor in the state who uses the Internet at this point. Mr. Wilson said the Board is open to any solutions at this point. He said the Internet is presented today because it offers the needed objectives of being readily available to most of the companies. Using the Internet provides the flexibility in terms of hardware and software programs. The Board envisions the user to have a personal computer with a modem and a phone line. The user would dial into an Internet service provider and then access the electronic data base. CompuServe and Online are just two of the Internet Service providers that are available.

Mr. Wayt asked that in view of the fact it took five years to get 52 wholesalers up to this point if the established timeframes are realistic.

Board Member Rabourn indicated the Board does not object to revising the timeframes if necessary, and the Board understands that 100% of suppliers must be filing electronically before any distributors.

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Mr. Wayt said all he is trying to gauge is the Board's flexibility in terms of deadline. He said his organization supports the concept of having the suppliers on first.

Mr. Wayt asked if the distributors who are using the current Board system could use Access or some other software to translate their data base into the proposed system? Mr. Goyette said that Access was considered and discarded in favor of Excel or a similar spread sheet type of program, and deferred to Mr. Wilson. Mr. Wilson said he would need to study the format of the information being provided before he can properly respond, but the objective is to make the price posting process as easy as possible, using the best system that is available. Mr. Wayt said the distributors have invested a great deal of money and time in the current system and do not want to start all over again.

Mr. Wayt said he would like to work on the Task Force. Mr. Goyette asked Mr. Raico to take down the names of the volunteers for the Task Force.

Mr. Wayt said the statute is clear in terms of what kind of information should be filed. He asked that since the allowances are different every month for individual products, if that information should be on line as well. Mr. Goyette said that could be done. Of concern is the comfort level in terms of amount of information that is on line.

Bill Slover, Beverage Solutions, asked if a list of approved items would be on the Website. Mr. Goyette replied in the affirmative. He also inquired about sourcing for items by variety and type. Mr. Slover volunteered to serve on the Task Force.

Sherrill Miller, EB Foot Winery, said as a "mom and pop" winery, her concern is that under the proposal, they may be required to buy a computer, a modem, a phone line, and the Internet access, which amount to an inordinate cost in view of the fact they only have five to 10 postings per year.

Mr. Goyette reiterated the Board will take into consideration the number of filings, the size of the companies and the types of hardware and software they currently have.

Board Member McKnew indicated the electronic filing and the Internet access services may be available at libraries and places like Kinkos, and that smaller licensees would

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not be required to purchase new, expensive hardware and software.

Joann Kossina, Anheuser Busch, Inc., thought this is a great first step. but asked how to handle military pricing. Ms. Whisman indicated that is another kind of allowance which would fall under the category of military allowance and would be handled in the same manner as depletion allowances.

Tanya McTaggart, G. Raden and Sons, asked how fast the information posted will go into the data base. Mr. Goyette said once the price is accepted by the system, that immediately becomes the price.

Dave Westfall, Northwest Select, asked if they will be able to use an Excel spread sheet to submit the price posting. He was also concerned about the cost of computer hardware and software.

Mr. Goyette said that is a good question. The Board will take into account the cost and the ease of use and select something that will work for both the large and small companies.

Jeff Peda, Vintage Northwest, asked what the timeline is on transmitting the supplier posters to distributors. Mr. Raico said the dates are set by RCW and WAC and will not change with the new filing system.

Steve Niebrand, Canadaigna Wine, asked who would digitize the labels for the system. Mr. Goyette said the Board is looking at a system where the labels can be sent electronically.

Lou Wood, Mt. Hood Beverage asked how the Excel spread sheet and the Internet tie in together? Mr. Wilson said Excel would be used to build a file to transmit prices through the Internet. Mr. Wood said he would have to learn how to work the Excel program. Mr. Wilson said Excel is only a recommendation; all the Board is asking for is a standard file format. Mr. Wood also volunteered for the Task Force.

Michelle Johnson, Cammarano Brothers, indicated the Board appears to have more than six volunteers and asked how the membership on the Task Force will be decided? Mr. Goyette said the Board will try to get a good mix representing all aspects of the industry. Ms. Johnson volunteered for the Task Force.


Mr. Goyette asked if there are further questions. There was

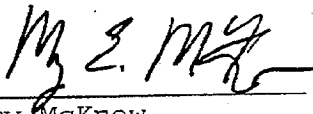
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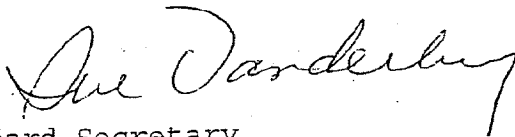
none. He concluded the meeting and thanked everyone for their participation.

Meeting Adjourned. The meeting was adjourned at 2:10 p.m.


Jack Rabourn
Board Member


Mary McKnew
Board Member

Attest:


Sue Vandenberg
Board Secretary

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